

VILLAGE OF BIRCH RUN

BIRCH RUN, MICHIGAN

**REPORT ON
AUDITED FINANCIAL STATEMENTS**

June 30, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Birch Run	County Saginaw
Fiscal Year End 6/30/06	Opinion Date 10-5-06	Date Audit Report Submitted to State 1/2/2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Taylor & Morgan, CPAs PC		Telephone Number 810 230-8200	
Street Address 6-2302 Stonebridge Dr.		City Flint	State MI
Zip 48532			
Authorizing CPA Signature William S Morgan		Printed Name William S Morgan	License Number 16917

VILLAGE OF BIRCH RUN

Birch Run, Michigan

Financial Statements

And

Auditor's Report

June 30, 2006

VILLAGE COUNCIL

MARIANNE NELSON

PRESIDENT

JEANETTE BUTHKET

COUNCILPERSON

JOHN CRAMER

COUNCILPERSON

DAVID STEWART

COUNCILPERSON

ED MCNAMARA

COUNCILPERSON

APPOINTED OFFICERS

JODIE GIBSON

TREASURER

BECKY WALTHER

CLERK/ACCOUNTANT

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Standards 48



Certified Public Accountants

Independent Auditor's Report

October 5, 2006

Village Council
Village of Birch Run
Birch Run, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Birch Run as of and for the year ended June 30, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

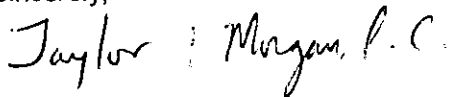
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Birch Run as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2006, on our consideration of Village of Birch Run's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Birch Run's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sincerely,

A handwritten signature in cursive script that reads "Taylor & Morgan, P.C.".

Taylor & Morgan, P.C.
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the *Village of Birch Run, Michigan*, we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here.

Financial Highlights

- The assets of the Village exceeded its liabilities at the close of the most recent fiscal year by \$7,054,083 (*net assets*). Of this amount, \$3,152,278 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$333,621.
- As of the close of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$961,863, an increase of \$56,726 in comparison with the prior year. More than 93 percent of this total amount, or \$899,460, is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$476,438 or approximately 61 percent of total general fund expenditures.
- The Village's total debt decreased by \$110,000 during the current fiscal year because of principal payments throughout the 2005/2006 fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected special assessments).

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Village include legislative, general government, elections, clerk and treasurer, public safety, inspections, planning and zoning, public works, and highways and streets. The business-type activities of the Village include sewer and water operations.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, major streets and local funds, each of which are considered to be major funds.

The Village adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

Business-Type Activities funds. The Village maintains one type of business-type activities fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Village uses enterprise funds to account for its sewer and water operations.

Business-type activities funds provide the same type of information as the government-wide financial statements, only in more detail. The business-type activities fund financial statements provide separate information for the sewer and water operations, both of which are considered major funds of the Village.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Village's own programs. The accounting used for fiduciary funds is much like that used for governmental funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Village of Birch Run, assets exceeded liabilities by \$7,054,083 at the close of the 2005-2006 fiscal year.

One of the largest portions of the Village's net assets (37.8 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Village of Birch Run's Net Assets						
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 1,051,232	\$ 985,865	\$ 3,478,252	\$ 3,325,738	\$ 4,529,484	\$ 4,311,603
Capital assets	238,739	200,587	3,041,412	3,144,738	3,280,151	3,345,325
Total assets	1,289,971	1,186,452	6,519,664	6,470,476	7,809,635	7,656,928
Long-term liabilities	-	-	505,000	610,000	505,000	610,000
Other liabilities	83,460	74,388	167,092	286,360	250,552	360,748
Total liabilities	83,460	74,388	672,092	896,360	755,552	970,748
Net assets:						
Invested in capital assets, net of related debt	238,739	200,587	2,431,412	2,424,738	2,670,151	2,625,325
Restricted	-	-	1,231,654	1,212,845	1,231,654	1,212,845
Unrestricted	967,772	945,759	2,184,506	1,936,533	3,152,278	2,882,292
Total net assets	\$1,206,511	\$1,146,346	\$5,847,572	\$5,574,116	\$7,054,083	\$6,720,462

An additional portion of the Village's net assets (17.5 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$3,152,278 or 44.7 percent of the Village's net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Village is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The Village's restricted net assets increased by \$18,809 during the current fiscal year. This increase mainly resulted from payments of debt service expenses and an increase in the restricted assets held on behalf of others.

The Village's net assets increased by \$333,621 during the current fiscal year. This growth largely reflects the degree to which ongoing revenues were exceeded by ongoing expenses.

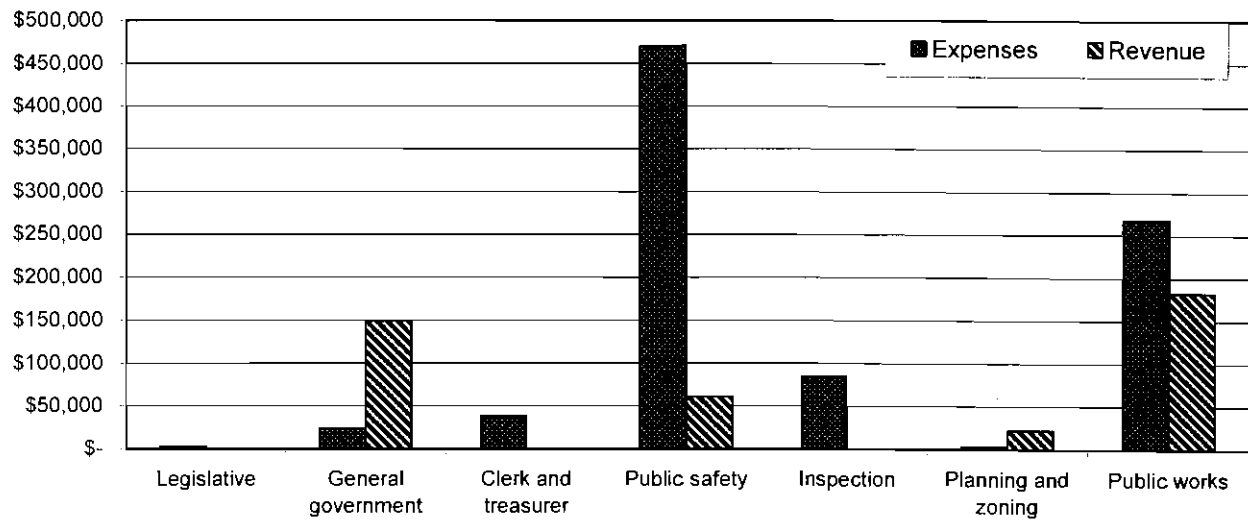
Village of Birch Run's Changes in Net Assets

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues:						
Program revenues:						
Charges for services	\$ 497,185	\$ 584,710	\$ 972,364	\$ 1,211,644	\$ 1,469,549	\$ 1,796,354
Operating grants and contributions	130,915	135,776	31,185	-	162,100	135,776
General revenues:						
Property taxes	158,703	154,080	-	-	158,703	154,080
Grants and contributions not restricted to specific programs	116,689	114,625	-	-	116,689	114,625
Unrestricted Investment						
Earnings	36,351	16,405	120,121	57,145	156,472	73,550
Transfers	8,300	44,379	(8,300)	(44,379)	-	-
Other	4,415	-	6,404	-	10,819	-
Total revenues	<u>952,558</u>	<u>1,049,975</u>	<u>1,121,774</u>	<u>1,224,410</u>	<u>2,074,332</u>	<u>2,274,385</u>
Expenses:						
General government	151,439	181,289	-	-	151,439	181,289
Public safety	470,477	496,601	-	-	470,477	496,601
Public works	270,477	322,890	-	-	270,477	322,890
Sewer	-	-	348,829	394,918	348,829	394,918
Water	-	-	499,489	715,747	499,489	715,747
Total expenses	<u>892,393</u>	<u>1,000,780</u>	<u>848,318</u>	<u>1,110,665</u>	<u>1,740,711</u>	<u>2,111,445</u>
Increase (decrease) in net assets	60,165	49,195	273,456	113,745	333,621	162,940
Net assets, beginning	<u>1,146,346</u>	<u>1,062,869</u>	<u>5,574,116</u>	<u>5,460,371</u>	<u>6,720,462</u>	<u>6,557,522</u>
Total net assets	<u>\$ 1,206,511</u>	<u>\$ 1,112,064</u>	<u>\$ 5,847,572</u>	<u>\$ 5,574,116</u>	<u>\$ 7,054,083</u>	<u>\$ 6,720,462</u>

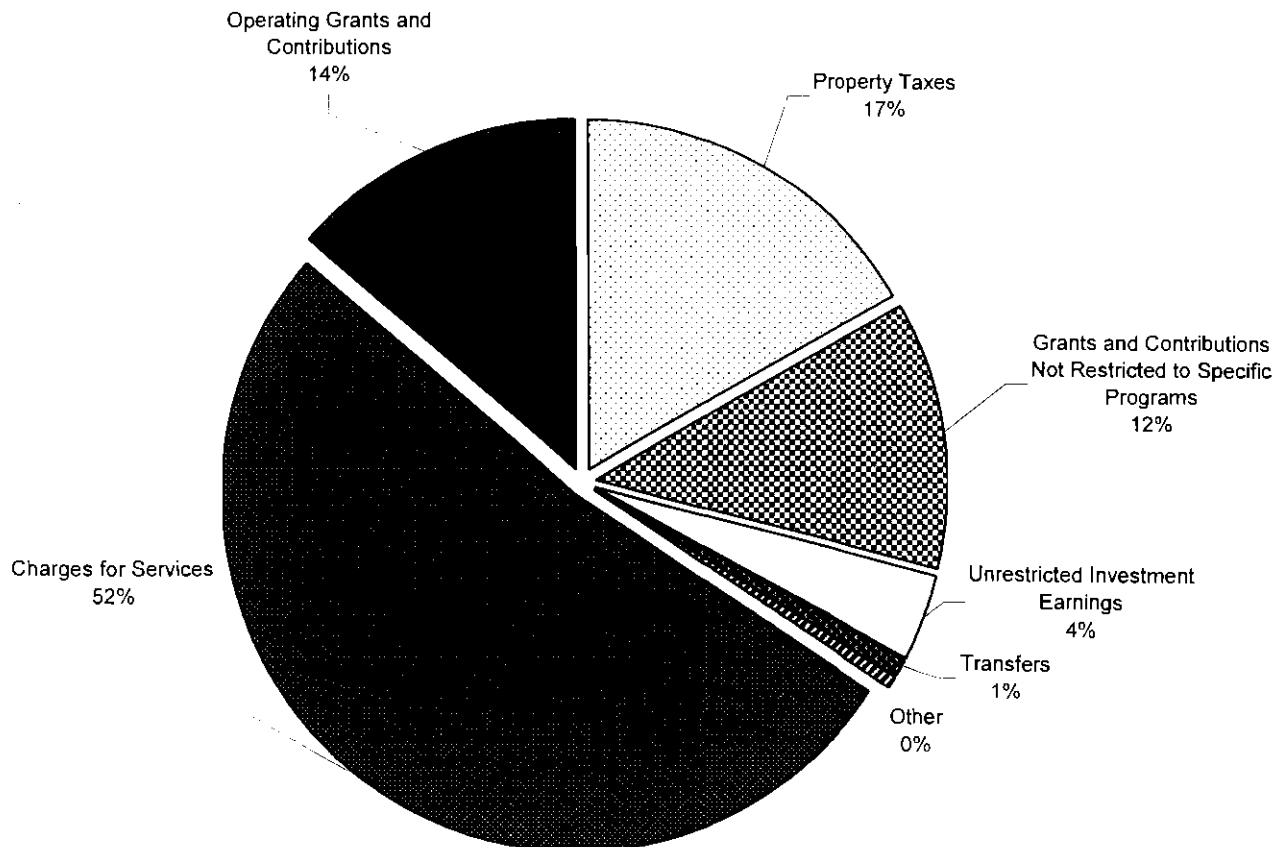
Governmental Activities. Governmental activities increased the Village's net assets by \$60,165, complementing the growth in the business-type activities and resulting in an overall increase in the net assets of the Village. Key elements of this increase are as follows:

- Property taxes increased by \$4,623 (3.0 percent) during the year. Most of this increase is the product of increased taxable values along with commercial and residential growth.
- Unrestricted investment earnings increased by \$19,946 (121.6 percent) during the year.
- Decreases in Village revenues, primarily due to revenue decreases in residential and commercial permit fees and revenue decreases in zoning and planning fees, were more than offset by decreases in the Village expenses, primarily due to expense decreases in Building & Zoning and expense decreases in Public Safety.

Expenses and Program Revenues - Governmental Activities



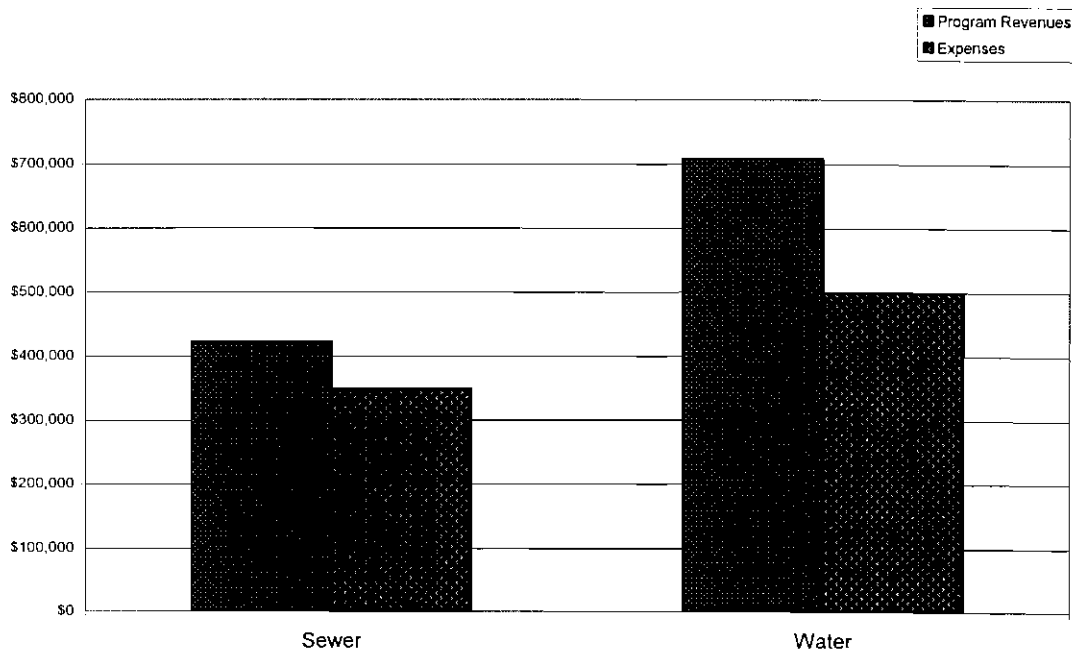
Revenues by Source - Governmental Activities



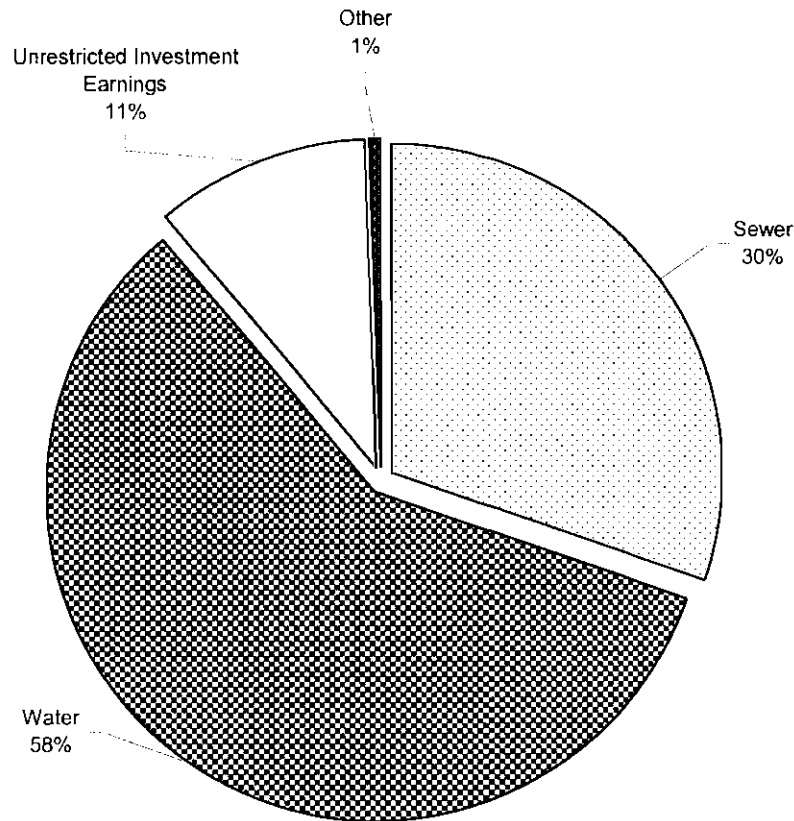
Business-type Activities. Business-type activities increased the Village's net assets by \$273,456, complementing the increase in the governmental activities and resulting in an overall increase in the net assets of the Village. Key elements of this increase are as follows:

- Decreases in revenue, primarily due to decreases in the charges for water service to Village customers and a revenue decrease in service charges from Birch Run Township, was more than offset by decreases in expense, primarily due to the decrease in water rates from the source of the Village's potable water source.
- Unrestricted investment earnings increased by \$62,976 (110.2 percent) during the year.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Village's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Village's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the 2005-2006 fiscal year, the Village's governmental funds reported combined ending fund balances of \$961,863, an increase of \$56,726 in comparison with the prior year. Approximately 93.5 percent of this total amount (\$899,460) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed for a variety of other restricted purposes.

The general fund is the chief operating fund of the Village. At the end of the current fiscal year, unreserved fund balance of the general fund was \$476,438, while the total fund balance reached \$538,841. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved general fund balance represents 61.1 percent of total general fund expenditures, while total general fund balance represents 69.1 percent of total general fund expenditures.

The fund balance of the Village's general fund increased by \$12,402 during the 2005-2006 fiscal year. This is primarily attributable to a reduction in Public Safety expenses, increase in tax revenue, and a decrease in the number of residential and commercial permits issued, which was offset by a decrease in the building and zoning expenses.

The major streets fund has a total fund balance of \$274,770, which increased by \$35,702 during the year. This increase was the result of a reduction in the expenses for major street sealing and major street repairs.

The local streets fund has a total fund balance of \$148,252, which increased by \$8,622 during the year. The increase is attributable to the reduction in the expenses for local street sealing and local street repairs.

Business-Type Activities funds. The Village's business-type activities funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the sewer and water funds at the end of the year amounted to \$1,289,041 and \$895,465, respectively. The sewer fund had an increase in net assets for the year of \$69,317 and the water fund had an increase in net assets for the year of \$204,139. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Village's business-type activities.

General Fund Budgetary Highlights

Differences between the original and final amended budgets for expenditures were relatively minor and the adjustments were made as a part of the Village's budget procedures to address changes in activity during the year.

Budget to actual comparisons for the Village's general fund were generally favorable, although to varying degrees.

Capital Asset and Debt Administration

Capital assets. The Village's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounted to \$3,280,152 (net of depreciation). This investment in capital assets includes land, buildings, vehicles, system improvements, machinery and equipment. The total decrease in the Village's investment in capital assets for the current fiscal year was 1.9 percent (a 19.0 percent increase for governmental activities and a 3.3 percent decrease for business-type activities).

Major capital asset events during the 2005-2006 fiscal year included the following:

- Completion of the Country Run Drainage project
- Purchase of a new Generator
- Purchase of a new Air Compressor
- Upgrades to the SCADA computer system

Village of Birch Run's Capital Assets
(net of depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 38,000	\$ 38,000	\$ 36,392	\$ 36,392	\$ 74,392	\$ 74,392
Land improvements	133,015	98,686	31,213	36,039	164,228	134,725
Buildings	12,596	12,926	102,169	105,051	114,765	117,977
Sewer System	-	-	2,332,896	2,404,833	2,332,896	2,404,833
Trucks & Heavy Equip	13,751	21,179	13,876	20,170	27,627	41,349
Police Equip	33,269	49,995	-	-	33,269	49,995
Water Mains	-	-	361,991	361,555	361,991	361,555
Mach & Equip	3,430	7,130	162,875	180,698	166,305	187,828
Office Equip & Furn	4,678	6,953	-	-	4,678	6,953
Total net assets	<u>\$ 238,739</u>	<u>\$ 234,869</u>	<u>\$ 3,041,412</u>	<u>\$ 3,144,738</u>	<u>\$ 3,280,151</u>	<u>\$ 3,379,607</u>

Long-term debt. At the end of the current fiscal year, the Village had total debt outstanding of \$610,000, which represents contracts payable to Saginaw County D.P.W.

Village of Birch Run's Outstanding Debt
Contracts Payable

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Contracts payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 610,000</u>	<u>\$ 720,000</u>	<u>\$ 610,000</u>	<u>\$ 720,000</u>

The Village's total debt decreased by \$110,000 (15.3 percent) during the 2005-2006 fiscal year, with the principal payments being the primary change during the current fiscal year.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the Village is \$7,611,920, which is significantly in excess of the Village's outstanding general obligation debt.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Village's budget for the 2006-2007 fiscal year:

- The 2005 average annual unemployment rate for the Saginaw-Saginaw Township metropolitan area (the Village is in the Saginaw area) was 7.7 percent, which is a decrease from an average annual rate of 8.5 percent a year ago. This was higher than the State of Michigan's 2005 average annual unemployment rate of 6.7 percent and the United States 2005 national average unemployment rate of 5.1 percent.
- The Village is comprised principally of residential areas. There is a stable business base that includes some light industrial operation.

During the 2005-2006 fiscal year, unreserved fund balance in the general fund increased to \$476,438.

Requests for Information

This financial report is designed to provide a general overview of the Village's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Village Clerk's office, 12060 Heath Street, P.O. Box 371, Birch Run, Michigan 48415.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

VILLAGE OF BIRCH RUN
GOVERNMENT WIDE STATEMENT OF NET ASSETS
JUNE 30, 2006

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Unit
Assets				
Cash, cash equivalents and investments	\$ 996,580	\$ 2,042,439	\$ 3,039,019	\$ 1,177,062
Receivables (net)	34,331	183,120	217,451	900
Due from other governmental units	20,321	21,039	41,360	-
Restricted cash and cash equivalents	-	1,231,654	1,231,654	-
Construction in progress	-	-	-	87,502
Nondepreciable capital assets	38,000	36,392	74,392	89,043
Depreciable capital assets, net	200,739	3,005,020	3,205,759	37,831
Total assets	1,289,971	6,519,664	7,809,635	1,392,338
Liabilities				
Accounts payable and accrued expenses	83,460	62,092	145,552	45,570
Noncurrent liabilities:				
Due within one year	-	105,000	105,000	85,000
Due in more than one year	-	505,000	505,000	1,805,000
Total liabilities	83,460	672,092	755,552	1,935,570
Net Assets				
Invested in capital assets, net of related debt	238,739	2,431,412	2,670,151	(1,675,624)
Restricted for:				
Acquisition/construction/replacement of capital assets	-	1,231,654	1,231,654	146,534
Unrestricted	967,772	2,184,506	3,152,278	985,858
Total net assets	\$ 1,206,511	\$ 5,847,572	\$ 7,054,083	\$ (543,232)

VILLAGE OF BIRCH RUN
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Totals	Component Unit
<u>Functions/Programs</u>							
Primary government							
Governmental activities:							
Legislative	\$ 2,733	\$ -	\$ -	\$ (2,733)	\$ -	\$ (2,733)	\$ -
General government	23,464	362,725	-	339,261	-	339,261	-
Clerk and treasurer	37,845	-	-	(37,845)	-	(37,845)	-
Public safety	470,477	59,207	1,644	(409,626)	-	(409,626)	-
Inspection and zoning	84,694	-	-	(84,694)	-	(84,694)	-
Planning and zoning	2,703	21,904	-	19,201	-	19,201	-
Public works	270,477	53,349	129,271	(87,857)	-	(87,857)	-
Total governmental activities	892,393	497,185	130,915	(264,293)	-	(264,293)	-
Business-type activities:							
Sewer	348,829	311,994	31,185	-	(5,650)	(5,650)	-
Water	499,489	660,370	-	-	160,881	160,881	-
Total business-type activities	848,318	972,364	31,185	-	155,231	155,231	-
Total primary government	\$ 1,740,711	\$ 1,469,549	\$ 162,100	(264,293)	155,231	(109,062)	-
Component unit:							
Downtown development authority	\$ 574,772	\$ -	\$ -				(574,772)
General revenues							
Property taxes				158,703	-	158,703	897,844
Grants and contributions not restricted to specific programs				116,689	-	116,689	-
Unrestricted investment earnings				36,351	120,121	156,472	43,957
Other revenues				4,415	6,404	10,819	435
Transfers				8,300	(8,300)	-	-
Total general revenues				324,458	118,225	442,683	942,236
Change in net assets				60,165	273,456	333,621	367,464
Net assets (deficit), beginning of year				1,146,346	5,574,116	6,720,462	(910,696)
Net assets (deficit), end of year				\$ 1,206,511	\$ 5,847,572	\$ 7,054,083	\$ (543,232)

FUND FINANCIAL STATEMENTS

**VILLAGE OF BIRCH RUN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Total Governmental Funds</u>
Assets				
Cash, cash equivalents and investments	\$ 592,118	\$ 259,772	\$ 144,690	\$ 996,580
Due from State	20,321	-	-	20,321
Accounts receivable	8,196	15,603	4,090	27,889
Interest receivable	533	-	-	533
Taxes receivable-delinquent	5,909	-	-	5,909
				-
Total assets	\$ 627,077	\$ 275,375	\$ 148,780	\$ 1,051,232
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 25,087	\$ -	\$ -	\$ 25,087
Payroll withholdings	4,739	-	-	4,739
Accrued payroll	10,925	605	528	12,058
Deferred revenue	5,909	-	-	5,909
Customer deposits	41,576	-	-	41,576
Total liabilities	88,236	605	528	89,369
Fund balances				
Reserved for drug forfeiture funds	13,495	-	-	13,495
Reserved for bike patrol funds	453	-	-	453
Reserved for D.A.R.E.	352	-	-	352
Reserved for salvage inspections	782	-	-	782
Reserved for code enforcement	47,321	-	-	47,321
Unreserved:				
Reported in:				
General Fund	476,438	-	-	476,438
Special Revenue Funds	-	274,770	148,252	423,022
Total fund balances	538,841	274,770	148,252	961,863
Total liabilities and fund balances	\$ 627,077	\$ 275,375	\$ 148,780	\$ 1,051,232

VILLAGE OF BIRCH RUN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006

Total Governmental Fund Balances		\$ 961,863
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of net assets	\$ 1,031,758	
Accumulated depreciation	<u>(793,019)</u>	238,739
Deferred revenue for personal property tax receivables are reported as liabilities in the governmental funds and as revenue or other financing sources in the statement of net assets.		<u>5,909</u>
Total net assets - governmental activities		\$ <u><u>1,206,511</u></u>

VILLAGE OF BIRCH RUN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes	\$ 159,134	\$ -	\$ -	\$ 159,134
Licenses and permits	88,512	-	-	88,512
State revenue	116,689	99,929	24,768	241,386
Fines and forfeitures	65,425	-	-	65,425
Charges for services	135,519	-	-	135,519
Reimbursements	192,427	15,919	5,601	213,947
Other revenue	25,743	9,324	5,699	40,766
				-
Total revenues	783,449	125,172	36,068	944,689
Expenditures				
Governing body	1,297	-	-	1,297
Elections	1,436	-	-	1,436
Village clerk/treasurer	37,845	-	-	37,845
Public safety	453,751	-	-	453,751
Zoning department	14,688	-	-	14,688
Building inspector	70,006	-	-	70,006
Planning commission	2,453	-	-	2,453
Zoning board of appeals	250	-	-	250
Department of public works	79,863	-	-	79,863
Highways and streets	77,237	65,593	51,323	194,153
Refuse	40,521	-	-	40,521
Total expenditures	779,347	65,593	51,323	896,263
Excess (deficiency) of revenues over (under) expenditures	4,102	59,579	(15,255)	48,426
Other financing sources (uses)				
Operating transfers in (out)	8,300	(23,877)	23,877	8,300
Total other financing sources (uses)	8,300	(23,877)	23,877	8,300
Net change in fund balances	12,402	35,702	8,622	56,726
Fund balance - beginning of year	526,439	239,068	139,630	905,137
Fund balance - end of year	\$ 538,841	\$ 274,770	\$ 148,252	\$ 961,863

VILLAGE OF BIRCH RUN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Total net change in fund balances - governmental funds	\$	56,726
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Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of those
assets is allocated over their estimated useful lives as
depreciation expense. This is the amount by which
depreciation exceeded capital outlay in the current period.

Capital Outlay	\$	51,882	
Depreciation Expense		<u>(48,012)</u>	3,870

Revenues in the statement of activities that do not provide
current financial resources are not reported as revenues in
the governmental funds. This amount represents the change
in delinquent personal property taxes receivable.

(431)

Change in net assets of governmental activities	\$	<u><u>60,165</u></u>
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**VILLAGE OF BIRCH RUN
STATEMENT OF NET ASSETS
BUSINESS-TYPE ACTIVITIES
JUNE 30, 2006**

	SEWER FUND	WATER FUND	TOTAL
Current assets			
Cash, cash equivalents and investments	\$ 1,261,027	\$ 781,412	\$ 2,042,439
Accounts receivable	43,692	137,196	180,888
Interest receivable	2,154	78	2,232
Due from other governmental units	-	21,039	21,039
Restricted current assets			
Cash and cash equivalents			
Replacement	-	512,810	512,810
Sewer connection fees	718,844	-	718,844
Total current assets	2,025,717	1,452,535	3,478,252
Noncurrent assets			
Property & equipment - net	2,637,250	404,162	3,041,412
Total assets	4,662,967	1,856,697	6,519,664
Current liabilities (payable from current assets)			
Accounts payable	8,457	42,224	50,681
Accrued expenses	2,042	2,036	4,078
Accrued interest	7,333	-	7,333
Current maturities of contracts payable-Saginaw County D.P.W.	105,000	-	105,000
Total current liabilities (payable from current assets)	122,832	44,260	167,092
Current liabilities (payable from restricted assets)			
Due to other governmental units	-	-	-
Total current liabilities	122,832	44,260	167,092
Long-term liabilities (exclusive of current maturities)			
Contracts payable-Saginaw County D.P.W.	505,000	-	505,000
Total liabilities	627,832	44,260	672,092
Net assets			
Invested in capital assets, net of related debt	2,027,250	404,162	2,431,412
Restricted for acquisition/construction of capital assets	718,844	512,810	1,231,654
Unrestricted net assets	1,289,041	895,465	2,184,506
Total net assets	\$ 4,035,135	\$ 1,812,437	\$ 5,847,572

VILLAGE OF BIRCH RUN
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
BUSINESS-TYPE ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	<u>SEWER FUND</u>	<u>WATER FUND</u>	<u>TOTAL</u>
Operating revenues			
Charges for services	\$ 203,255	\$ 553,893	\$ 757,148
Township service charge	-	94,203	94,203
Miscellaneous	595	3,809	4,404
Total operating revenues	203,850	651,905	855,755
Operating expenses			
Salaries and wages	70,589	115,816	186,405
Payroll taxes and fringe benefits	13,582	15,536	29,118
Sewage treatment	57,288	-	57,288
Operating supplies	2,089	21,721	23,810
Utilities	9,994	3,826	13,820
Dues and subscriptions	477	189	666
Professional fees	32,562	45,709	78,271
Office expenses	1,898	3,201	5,099
Equipment rental	13,801	20,393	34,194
Repairs and maintenance	5,870	2,881	8,751
Bad debt expense	-	839	839
Travel and training	296	231	527
Depreciation	109,689	25,973	135,662
Water purchases	-	230,054	230,054
Insurance	6,903	5,892	12,795
Capital outlay	1,811	1,811	3,622
Miscellaneous	3,591	5,417	9,008
Total operating expenses	330,440	499,489	829,929
Operating income/(loss)	(126,590)	152,416	25,826
Non-operating revenues (expenses)			
Connection/rental fees	14,485	12,274	26,759
Interest income	76,472	43,649	120,121
Reimbursements	94,254	-	94,254
Gain (loss) on trade in of capital assets	2,000	-	2,000
Bond interest and fiscal charges	(18,389)	-	(18,389)
Contribution from Township for debt service	31,185	-	31,185
Total non-operating revenues/(expenses)	200,007	55,923	255,930
Income (loss) before transfers	73,417	208,339	281,756
Transfers			
Transfers (out)	(4,100)	(4,200)	(8,300)
Net income (loss)	69,317	204,139	273,456
Net assets - beginning of year	3,965,818	1,608,298	5,574,116
Net assets - end of year	\$ 4,035,135	\$ 1,812,437	\$ 5,847,572

**VILLAGE OF BIRCH RUN
STATEMENT OF CASH FLOWS
BUSINESS-TYPE ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**

	SEWER FUND	WATER FUND	TOTAL
Cash flows from operating activities			
Receipts from customers	\$ 209,986	\$ 500,260	\$ 710,246
Payments to employees	(70,386)	(116,371)	(186,757)
Payments to suppliers	(149,238)	(360,612)	(509,850)
Other operating revenue	595	3,657	4,252
	<u>(9,043)</u>	<u>26,934</u>	<u>17,891</u>
Net cash provided (used) by operating activities			
Cash flows from non-capital financing activities			
Transfers (out)	(4,100)	(4,200)	(8,300)
Cash flows from capital and related financing activities			
Connection fees	14,485	12,274	26,759
Acquisition of capital assets	(16,962)	(13,373)	(30,335)
Principal payments on long-term debt	(110,000)	-	(110,000)
Bond interest and fiscal charges	(18,389)	-	(18,389)
Reimbursements	94,254		
Contribution from Township for debt service	31,185	-	31,185
	<u>(5,427)</u>	<u>(1,099)</u>	<u>(6,526)</u>
Net cash provided (used) by capital and related financing activities			
Cash flows from investing activities			
Interest earned on investments	75,419	43,571	118,990
Proceeds from maturities of investments	510,455	-	510,455
Purchases of investments	-	-	-
	<u>585,874</u>	<u>43,571</u>	<u>629,445</u>
Net cash provided (used) by investing activities			
Net increase (decrease) in cash and cash equivalents	567,304	65,206	632,510
Cash and cash equivalents - beginning of year	1,412,567	1,229,016	2,641,583
Cash and cash equivalents - end of year	\$ <u>1,979,871</u>	\$ <u>1,294,222</u>	\$ <u>3,274,093</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income	\$ (126,590)	\$ 152,416	\$ 25,826
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	109,689	25,973	135,662
Decrease (increase) in assets:			
Accounts receivable	6,731	(53,633)	(46,902)
Due from other governmental units	-	17,574	17,574
Increase (decrease) in liabilities:			
Accounts payable	924	(2,913)	(1,989)
Accrued expenses	203	(554)	(351)
Due to other governmental units	-	(111,929)	(111,929)
	<u>(9,043)</u>	<u>26,934</u>	<u>17,891</u>
Net cash provided by operating activities	\$ <u>(9,043)</u>	\$ <u>26,934</u>	\$ <u>17,891</u>

VILLAGE OF BIRCH RUN
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2006

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ <u>2,018</u>
Liabilities	
Due to D.A.R.E.	\$ <u>2,018</u>

NOTES TO FINANCIAL STATEMENTS

VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Birch Run (the "Village") was organized in 1955 as a home rule village and covers an area of approximately one square mile. The Village operates under an elected Village Council of five members and provides services to approximately 1,660 residents in many areas including law enforcement, community enrichment and development, and human services.

The accounting policies of the Village conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village:

Reporting entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Village (the primary government) and the Downtown Development Authority (the component unit). The Downtown Development Authority (DDA) is included in the Village's reporting entity because of the significance of its operational and financial relationship with the Village.

Component Unit-In conformity with accounting principles generally accepted in the United States of America, the financial statements of the DDA have been included in the financial reporting entity as a discretely presented component unit. The DDA is reported in a separate column to emphasize that it is legally separate from the Village. The members of the DDA are appointed by the Village President and the DDA is fiscally dependant on the Village as the DDA is prohibited from levying taxes and issuing bonded debt without the approval of the Village Council.

Government-wide and fund financial statements

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and inter-governmental revenues, are reported separately from business-type activities which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenue are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the governmental-wide financial statements. Major individual governmental funds and the major enterprise funds are reported in separate columns in the fund financial statements.

VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures relating to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, intergovernmental revenues, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Village reports the following major governmental funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Streets Fund accounts for the grant revenues and the related operation and maintenance of the major street system.
- The Local Streets Fund accounts for the grant revenues and the related operation and maintenance of the local street system.

The Village reports the following major proprietary funds:

- The Sewer Fund accounts for the activities of the Village's sewage disposal and treatment system.
- The Water Fund accounts for the activities of the Village's water distribution and treatment system.

Additionally, the Village reports the following:

Agency Funds – The Agency Funds are used to account for assets held for other governments in an agency capacity, including tax collections. They are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Property taxes are reported as general revenues rather than as program revenues.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the sewer and water enterprise funds relate to charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap in fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, general and administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property tax revenue

Village properties are assessed as of December 31 and the related property taxes become a lien in May of the following year.

Real property taxes not collected as of September 30 are turned over to Saginaw County for collection. The County remits the collections to the Village until the delinquent tax settlement date. Collection of delinquent personal property taxes remains the responsibility of the Village Treasurer.

The 2005 taxable valuation of the Village was 33,742,666, on which the ad valorem tax levy consisted of 4.57 mills for operating purposes.

Assets, liabilities and net assets or equity

Cash and cash equivalents – For purposes of the statement of cash flows, the Village has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less.

VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Investments-Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value. As of June 30, 2006 the Village did not have any deposits qualifying as investments.

Receivables – All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Prepaid items – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets – Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following useful lives.

Land improvements	50 years
Buildings and building improvements	50 years
System infrastructure	5 to 30 years
Vehicles	3 to 10 years
Machinery and equipment	5 to 20 years

Long-term obligations-In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Interfund transactions-During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services and to service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Comparative data

Comparative data is not included in the Village's financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The office staff submits to the Village Council, at their May meeting, a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution at the June Village Council meeting.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
5. Budgets for the General Fund and Major and Local Streets Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The budget for the Downtown Development Authority Component Unit was adopted on a cash flow basis of accounting.
6. Budgeted amounts are originally adopted or as amended by the Village Council.

**VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Excess of expenditures over appropriations in budgeted funds

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. In the body of the financial statements, the Township's actual and budgeted expenditures for the period have been shown as adopted by function on a modified accrual basis.

During the year, the Village incurred expenditures in the following funds which were in excess of the amounts appropriated in various activities as follows:

<u>Budget item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>	<u>Variance</u>
General Fund-Clerk/Treasurer	\$ 36,280	\$ 37,845	\$ (1,565)
General Fund-Public Safety	428,632	453,751	(25,119)
General Fund-Zoning Department	13,715	14,688	(973)
General Fund-Building Department	65,327	70,006	(4,679)
General Fund-Planning Commission	2,073	2,453	(380)
General Fund-Public Works	78,242	79,863	(1,621)
General Fund-Storm sewer repair	55,784	55,882	(98)
General Fund-Refuse Expenditures	39,476	40,521	(1,045)
Major Streets Fund-Highways and streets	64,403	65,593	(1,190)
Local Streets Fund-Highways and streets	48,604	51,323	(2,719)

NOTE 3 – DEPOSITS AND INVESTMENTS

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Village's policy provides that to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities and are invested primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Village's investment in a single issuer, defined as 5% or more of the Village's total investments. U.S. government securities and 2a7-like investment pools are excluded from these restrictions.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits this exposure by mandating that the Village's investments in commercial paper and corporate bonds be limited to those with a prime rating or better issued by nationally recognized statistical rating organizations (NRSROs).

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Village's deposits may not be returned or the Village will not be able to recover collateral securities, if any, in the possession of an outside party. At June 30, 2006, the Village had \$5,078,528 of its deposit balances uninsured and uncollateralized.

VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. This risk is minimized by the Village through limiting investments to those of a prime or better rating and pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Village is not authorized to invest in investments that would be subject to this type of risk.

The Village maintains a cash pool that is available for use by essentially all Village funds. The portion of this pool attributable to each separate fund is shown on the statement of net assets as "Cash and cash equivalents". In addition, various interest bearing savings and checking accounts, certificates of deposits and investments are separately held by several of the Village's funds.

The Village is authorized by the State to invest surplus funds in the following:

- Bonds, securities, repurchase agreements and other obligations of the United States or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers' acceptances of the United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered by the Investment Company Act of 1940 with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The investment policy adopted by the Board authorized all of the investments allowable under Michigan law and is in accordance with statutory authority.

**VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 4 - CAPITAL ASSETS

Capital assets for the year ended June 30, 2006 were as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated-Land	\$ 38,000	\$ -	\$ -	\$ 38,000
Capital assets being depreciated:				
Land improvements	178,497	51,882	-	230,379
Buildings	293,174	-	-	293,174
Trucks and heavy equipment	167,801	-	-	167,801
Police equipment	180,801	-	-	180,801
Machinery and equipment	90,595	-	-	90,595
Office equipment, furniture and fixtures	31,008	-	-	31,008
Total capital assets being depreciated	<u>941,876</u>	<u>51,882</u>	<u>-</u>	<u>993,758</u>
Less accumulated depreciation:				
Land improvements	(79,811)	(17,553)	-	(97,364)
Buildings	(280,248)	(330)	-	(280,578)
Trucks and heavy equipment	(146,622)	(7,428)	-	(154,050)
Police equipment	(130,806)	(16,726)	-	(147,532)
Machinery and equipment	(83,465)	(3,700)	-	(87,165)
Office equipment, furniture and fixtures	<u>(24,055)</u>	<u>(2,275)</u>	<u>-</u>	<u>(26,330)</u>
Total accumulated depreciation	<u>(745,007)</u>	<u>(48,012)</u>	<u>-</u>	<u>(793,019)</u>
Total capital assets being depreciated, net	<u>196,869</u>	<u>3,870</u>	<u>-</u>	<u>200,739</u>
Governmental activities capital assets, net of depreciation	<u>\$ 234,869</u>	<u>\$ 3,870</u>	<u>\$ -</u>	<u>\$ 238,739</u>

VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets not being depreciated- Land	\$ 36,392	\$ -	\$ -	\$ 36,392
Capital assets being depreciated:				
Land improvements	53,690	-	-	53,690
Buildings	115,302	-	-	115,302
Sewer system	3,662,345	-	-	3,662,345
Vehicles	65,180	-	-	65,180
Mains	667,687	-	-	667,687
Furniture and equipment	<u>226,965</u>	<u>32,336</u>	-	<u>259,301</u>
Total capital assets being depreciated	<u>4,791,169</u>	<u>32,336</u>	-	<u>4,823,505</u>
Less accumulated depreciation:				
Land improvements	(17,651)	(4,827)	-	(22,478)
Buildings	(10,251)	(2,882)	-	(13,133)
Sewer system	(1,257,512)	(71,937)	-	(1,329,449)
Vehicles	(45,010)	(6,294)	-	(51,304)
Mains	(287,320)	(18,376)	-	(305,696)
Furniture and equipment	<u>(65,079)</u>	<u>(31,346)</u>	-	<u>(96,425)</u>
Total accumulated depreciation	<u>(1,682,823)</u>	<u>(135,662)</u>	-	<u>(1,818,485)</u>
Total capital assets being depreciated, net of depreciation	<u>3,108,346</u>	<u>(103,326)</u>	-	<u>3,005,020</u>
Business-type activities capital assets, net of depreciation	<u>\$ 3,144,738</u>	<u>\$ (103,326)</u>	<u>\$ -</u>	<u>\$ 3,041,412</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 23,464
Public safety	16,726
Public works	<u>7,822</u>

Total depreciation expense-governmental activities \$ 48,012

Business-type activities:

Sewer	\$ 109,689
Water	<u>25,973</u>

Total depreciation expense-business-type activities \$ 135,662

VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Component unit-DDA

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 89,043	\$ -	\$ -	\$ 89,043
Construction in progress	<u>47,578</u>	<u>39,924</u>	<u>-</u>	<u>87,502</u>
Total capital assets not being depreciated	<u>136,621</u>	<u>39,924</u>	<u>-</u>	<u>176,545</u>
Capital assets being depreciated:				
Land improvements	11,675	-	-	11,675
Buildings	6,740	-	-	6,740
Vehicles	40,892	-	-	40,892
Equipment	<u>278,251</u>	<u>-</u>	<u>16,975</u>	<u>261,276</u>
Total capital assets being depreciated	<u>337,558</u>	<u>-</u>	<u>16,975</u>	<u>320,583</u>
Less accumulated depreciation:				
Land improvements	(455)	(388)	-	(843)
Buildings	(177)	(225)	-	(402)
Vehicles	(40,892)	-	-	(40,892)
Equipment	<u>(248,900)</u>	<u>(8,690)</u>	<u>16,975</u>	<u>(240,615)</u>
Total accumulated depreciation	<u>(290,424)</u>	<u>(9,303)</u>	<u>16,975</u>	<u>(282,752)</u>
Total capital assets being depreciated, net of depreciation	<u>47,134</u>	<u>(9,303)</u>	<u>-</u>	<u>37,831</u>
Capital assets, net of depreciation	<u>\$ 183,755</u>	<u>\$ 30,621</u>	<u>\$ -</u>	<u>\$ 214,376</u>

NOTE 5 – DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes receivable (General Fund)	<u>\$ 5,909</u>	<u>\$ -</u>

**VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 6 - INTERFUND TRANSFERS

For the year ended June 30, 2006, the Village had the following interfund transfers:

		<u>Transfer</u>		<u>from:</u>	
	<u>Major</u>	<u>Sewer</u>	<u>Water</u>		<u>Total</u>
Transfer to:	<u>Streets</u>				
General	\$ -	\$ 4,100	\$ 4,200		\$ 8,300
Local Streets	<u>23,877</u>	<u>-</u>	<u>-</u>		<u>23,877</u>
Total	<u>\$ 23,877</u>	<u>\$ 4,100</u>	<u>\$ 4,200</u>		<u>\$ 32,177</u>

The transfer from the Major Streets Fund to the Local Streets Fund is for the purpose of funding maintenance on local streets, which is not funded by intergovernmental revenues.

The transfers from the Sewer and Water Funds to the General Fund is for the purpose of reimbursing the General Fund for certain administrative expenditures incurred by the General Fund on behalf of the Sewer and Water Funds. The transfer from the Sewer Fund to the General Fund also includes reimbursements for costs incurred for the Country Run drainage repairs.

NOTE 7 – LONG-TERM DEBT

The following is a summary of long-term debt outstanding of the Village and component unit for the year ending June 30, 2006:

	<u>Beginning</u>		<u>Additions</u>	<u>Reductions</u>	<u>Ending</u>	<u>Due within</u>
	<u>Balance</u>				<u>Balance</u>	<u>One Year</u>
Primary Government						
Business-type activities						
Contracts payable-						
1.45% to 3.9%,						
due 9/1/11	<u>\$ 720,000</u>	<u>\$ -</u>	<u>\$ (110,000)</u>		<u>\$610,000</u>	<u>\$ 105,000</u>
Component Unit						
Bonds payable-National						
City, 6.6% to 6.9%,						
due 11/1/05	\$ 140,000	\$ -	\$ (140,000)	\$ -	\$ -	\$ -
Bonds payable- Bank						
of New York, 4.4% to						
5.25%, due 6/1/23	<u>1,970,000</u>	<u>-</u>	<u>(80,000)</u>	<u>1,890,000</u>	<u>85,000</u>	
Total bonds payable	<u>\$2,110,000</u>	<u>\$ -</u>	<u>\$ (220,000)</u>	<u>\$1,890,000</u>	<u>\$ 85,000</u>	

The Downtown Development Authority (DDA) has pledged its tax increment revenues, together with any available general revenue funds of the Authority to pay the \$1,890,000 bonded debt

VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

issued to Bank of New York. In addition, the bonds are backed by the full faith and credit of the Village of Birch Run.

During the year ended June 30, 2003, Saginaw County refunded the Birch Run Extension #2 bond issue, which the Village is contractually obligated to reimburse. There was \$925,000 of principal remaining on the refunded sewer contract and the value had been increased to \$935,000 remaining at June 30, 2003. The DDA is reimbursing the Sewer Fund for 71.65% of the principal, interest and fees on the outstanding sewer contract. The remaining 23.85% is being paid by Birch Run Township.

Annual debt service requirements to maturity for general obligation and revenue bonds and notes are as follows:

Year Ending June 30,	Business-type	Activities	Component	Unit
	Principal	Interest	Principal	Interest
2007	\$ 105,000	\$ 17,938	\$ 85,000	\$ 96,690
2008	100,000	15,325	85,000	92,780
2009	100,000	12,525	90,000	88,785
2010	95,000	9,458	90,000	84,465
2011	100,000	6,090	95,000	80,055
2012-2016	110,000	2,145	530,000	324,740
2017-2021	-	-	625,000	177,188
2022-2023	-	-	290,000	23,100
Total	<u>\$ 610,000</u>	<u>\$ 63,481</u>	<u>\$ 1,890,000</u>	<u>\$ 967,803</u>

NOTE 8 – DEFINED BENEFIT PENSION PLAN

Plan description

The Village's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Village participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding policy

The Village is required to contribute an amount equal to a percentage of covered payroll which is determined based on union negotiated rates and actuarially determined rates; the current rate ranges from 4.5% to 5.0% of annual covered payroll. The plan also requires a contribution from the employees of 4.1% of gross wages for police, D.P.W. and administrative staff employees.

**VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Annual pension cost

For the year ended June 30, 2006, the Village's annual pension cost of \$50,784 for MERS was equal to the Village's required and actual contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, and (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation. Both were determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized on a closed basis over a period of 30 years, as of December 31, 2005, the date of the last actuarial valuation.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/04	\$ 49,250	100%	\$ -
6/30/05	\$ 55,165	100%	\$ -
6/30/06	\$ 50,784	100%	\$ -

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/03	\$ 282,810	\$ 455,612	\$ 172,802	62%	\$ 602,849	29%
12/31/04	\$ 339,323	\$ 515,900	\$ 176,577	66%	\$ 615,664	29%
12/31/05	\$ 400,584	\$ 537,998	\$ 137,414	75%	\$ 623,713	22%

NOTE 9 - RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2006, the Village carried commercial insurance to cover all risk of losses. The worker's compensation insurance is the only retrospectively rated policy; any premiums accrued are based on the ultimate cost of the experience to date of the Village. The Village has had no settled claims resulting from these risks that exceeded their commercial coverage in the past three fiscal years.

**VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 10 – CONTRACT AND INTERLOCAL AGREEMENT

The Village and the DDA entered into an agreement dated May 1, 1992, whereby the DDA reimburses the Village on an annual basis for certain police and public works costs provided by the Village within the DDA boundaries. The plan may continue to capture school taxes for these items through December 31, 2007, which is the duration of the DDA plan in effect at the time of Proposal A. For the year ended June 30, 2006, the amount reimbursed by the DDA was \$192,427.

NOTE 11 – SEWER AGREEMENT

During the year ended June 30, 1998, the Village, Saginaw County, and the Township of Birch Run entered into an agreement regarding the Sewage Disposal System and the \$1,400,000 1991 Saginaw County Sewage Disposal Bonds.

The Township agreed to assume the responsibility for 28.35% of the debt service on the outstanding bonds. The County paid the Village \$217,127, which represented 28.35% of the past debt service costs which were paid by the Sewer Fund plus a portion of legal and consulting fees. These funds plus interest earned were to be spent on public improvements by December 5, 1999. During the year ended June 30, 2001, the Village received approval on a proposal that allows the Village to apply these funds to specific projects to be completed after December 5, 1999. This proposal also requires that the Village must restrict the yield on the investment of any funds remaining after December 5, 1999 to a rate of 5.25% per annum. The last of the remaining funds were spent during the year ended June 30, 2005.

NOTE 12 - BUILDING AND SIMILAR FEES

Michigan Department of Treasury Local Audit Letter 2000-6 states that local units can retain compliance with P.A. 245 of 1999, Statewide Construction Code Act, by accounting for building department revenues in the General Fund only as long as the local unit's fee structure is not intended to recover the full cost of the enforcing agency and the local unit has the ability to track the full costs and revenues of this activity without creating a separate fund. The Village complies with these provisions, and therefore, the building department activity is recorded in the General Fund.

The Village collects monies for building, electrical, mechanical, plumbing, and planning and zoning permits and fees. The amount received for these permits for the year ended June 30, 2006 was \$55,280. The expenditures incurred related to code enforcement for the year ended June 30, 2006 were \$69,804.

NOTE 13 – CONTINGENCIES

The Village is engaged in routine litigation incidental to the conduct of its affairs. In the opinion of legal counsel and Village management, no legal proceedings are pending against the Village which are not covered by insurance or which would inhibit the Village's ability to perform its operations or materially affect its financial condition.

**VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 14 – PRIOR YEAR NET ASSET RESTATEMENT

Capital expenditures incurred during the fiscal year ended June 30, 2005 were not recorded until the current year understating net assets in the governmental activities by \$34, 282. The effect of this restatement is as follows:

	<u>As Originally Stated</u>	<u>Restated</u>
Invested in capital assets, net of related debt	\$ 200,587	\$ 234,869
Unrestricted	<u>911,477</u>	<u>911,477</u>
Total net assets	<u>\$1,112,064</u>	<u>\$1,146,346</u>

REQUIRED SUPPLEMENTAL INFORMATION

**VILLAGE OF BIRCH RUN
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts			Variance Over/(Under) Final Budget
	Original	Final	Actual	
Revenues				
Taxes	\$ 158,866	\$ 158,922	\$ 159,134	\$ 212
Licenses and permits	107,526	79,693	88,512	8,819
Fines and forfeitures	63,800	62,947	65,425	2,478
Intergovernmental revenue	119,887	116,451	116,689	238
Other revenues	348,590	351,043	353,689	2,646
Total revenues	798,669	769,056	783,449	14,393
Expenditures				
Governing body	1,632	1,588	1,297	291
Elections	2,000	1,436	1,436	-
Village Clerk/Treasurer	37,902	36,280	37,845	(1,565)
Public safety	463,801	428,632	453,751	(25,119)
Zoning department	15,961	13,715	14,688	(973)
Building department/inspector	62,079	65,327	70,006	(4,679)
Planning commission	4,320	2,073	2,453	(380)
Zoning board of appeals	1,040	250	250	-
Department of public works	63,727	78,242	79,863	(1,621)
Sidewalk construction	1,500	580	580	-
Storm sewer repair/construction	62,997	55,784	55,882	(98)
Street lighting	21,070	21,704	20,775	929
Refuse expenditures	41,759	39,476	40,521	(1,045)
Total expenditures	779,788	745,087	779,347	(34,260)
Revenues over (under) expenditures	18,881	23,969	4,102	(19,867)
Other financing sources (uses)				
Operating transfers in/(out)	8,300	8,300	8,300	-
Net change in fund balances	27,181	32,269	12,402	(19,867)
Fund balance-beginning of year	526,439	526,439	526,439	-
Fund balance-end of year	\$ 553,620	\$ 558,708	\$ 538,841	\$ (19,867)

**VILLAGE OF BIRCH RUN
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE-MAJOR STREETS FUND
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Over/(Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
State revenue	\$ 98,771	\$ 100,944	\$ 94,493	\$ (6,451)
Reimbursements	18,944	15,920	15,919	(1)
Interest	-	-	9,266	9,266
Other revenues	<u>2,770</u>	<u>9,008</u>	<u>5,494</u>	<u>(3,514)</u>
Total revenues	120,485	125,872	125,172	(700)
Expenditures				
Highways and streets	<u>72,772</u>	<u>64,403</u>	<u>65,593</u>	<u>(1,190)</u>
Revenues over (under) expenditures	47,713	61,469	59,579	(1,890)
Other financing sources (uses)				
Transfers (out)	<u>(24,693)</u>	<u>(23,877)</u>	<u>(23,877)</u>	<u>-</u>
Net change in fund balances	23,020	37,592	35,702	(1,890)
Fund Balance - beginning of year	<u>239,068</u>	<u>239,068</u>	<u>239,068</u>	<u>-</u>
Fund Balance - end of year	<u>\$ 262,088</u>	<u>\$ 276,660</u>	<u>\$ 274,770</u>	<u>\$ (1,890)</u>

**VILLAGE OF BIRCH RUN
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE-LOCAL STREETS FUND
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Over/(Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
State revenue	\$ 25,884	\$ 25,031	\$ 24,768	\$ (263)
Reimbursements	5,779	5,601	5,601	-
Interest	1,419	5,657	5,651	(6)
Other revenues	<u>-</u>	<u>40</u>	<u>48</u>	<u>8</u>
Total revenues	33,082	36,329	36,068	(261)
Expenditures				
Highways and streets	<u>56,399</u>	<u>48,604</u>	<u>51,323</u>	<u>(2,719)</u>
Revenues over (under) expenditures	(23,317)	(12,275)	(15,255)	(2,980)
Other financing sources (uses)				
Transfers (out)	<u>24,693</u>	<u>23,877</u>	<u>23,877</u>	<u>-</u>
Net change in fund balances	1,376	11,602	8,622	(2,980)
Fund Balance - beginning of year	<u>139,630</u>	<u>139,630</u>	<u>139,630</u>	<u>-</u>
Fund Balance - end of year	<u>\$ 141,006</u>	<u>\$ 151,232</u>	<u>\$ 148,252</u>	<u>\$ (2,980)</u>

INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

VILLAGE OF BIRCH RUN
OTHER SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE DETAIL-GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts			Variance
	Original	Final	Actual	Over/(Under) Final Budget
REVENUES				
Taxes				
Current real property taxes	\$ 116,172	\$ 116,212	\$ 116,212	\$ -
Current personal property taxes	39,008	37,910	37,911	1
Mobile home taxes	750	750	961	211
Property tax administration fee	2,936	4,050	4,050	-
Total taxes	158,866	158,922	159,134	212
Licenses and permits				
Contractor registration fee	765	435	465	30
Business licenses	6,600	7,450	7,600	150
Residential permits	11,523	10,728	11,450	722
Commercial permits	70,519	38,714	43,830	5,116
Rental housing license fees	2,754	2,793	2,793	-
Planning commission fees	3,975	1,440	1,440	-
Zoning board of appeals fees	990	-	-	-
Miscellaneous revenues-zoning	210	35	1,465	1,430
Zoning permit fees	9,200	17,748	18,999	1,251
Sign board of appeals fees	990	-	-	-
Miscellaneous revenues-building	-	350	470	120
Total licenses and permits	107,526	79,693	88,512	8,819
Fines and forfeitures				
State grant-police training	1,548	953	1,644	691
Charges for police services	28,332	28,332	29,253	921
Traffic grant reimb.-Saginaw	5,200	4,213	4,574	361
Ordinance fines and traffic violations	17,820	13,252	13,654	402
Forfeitures	-	6,269	6,498	229
Police reports	2,800	699	696	(3)
Alarm permits/violations	4,500	3,873	3,610	(263)
Salvage inspections	-	1,030	1,030	-
Police service revenues	3,600	4,326	4,466	140
Total fines and forfeitures	63,800	62,947	65,425	2,478
Intergovernmental revenue				
State constitutional sales tax	117,193	113,617	113,717	100
State statutory sales tax	-	(84)	54	138
State liquor license	2,694	2,918	2,918	-
Total intergovernmental revenue	119,887	116,451	116,689	238
Other revenues				
Refuse revenue	47,457	53,350	53,349	(1)
Equipment rental	94,292	85,036	82,170	(2,866)
Reimbursements	191,558	188,521	192,427	3,906
Interest	15,283	20,500	21,434	934
Miscellaneous	-	3,636	4,309	673
Total other revenues	348,590	351,043	353,689	2,646
Total revenues	798,669	769,056	783,449	14,393
EXPENDITURES				
Governing body				
Salaries	1,428	1,428	1,122	306
Workers' compensation	9	10	10	-
Dues, memberships and subscriptions	150	150	150	-
Community promotions	45	-	15	(15)
Total governing body	1,632	1,588	1,297	291
Elections				
Salaries	300	224	224	-
Election expenses	1,700	1,212	1,212	-
Total elections	2,000	1,436	1,436	-
Village Clerk/Treasurer				
Salaries	20,766	19,731	20,818	(1,087)
Fringe benefits	1,234	1,117	1,282	(165)
Workers' compensation	76	86	78	8
Employer taxes	1,589	1,215	1,484	(269)
Office supplies	500	468	472	(4)
Postage	200	87	278	(191)
Dues, memberships and subscriptions	25	281	281	-
Contractual/professional services	3,178	4,010	3,884	126
Legal fees	900	146	134	12
Insurance	4,841	4,880	4,878	2

VILLAGE OF BIRCH RUN
OTHER SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE DETAIL-GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts			
	Original	Final	Actual	Over Fin =
Repairs and maintenance	100	-	-	
Telephone	360	340	270	
Travel and training	510	424	413	
Mileage	262	149	146	
Printing and publishing	107	142	160	
Utilities	3,054	3,101	2,957	
Miscellaneous	200	103	310	
Total village clerk/treasurer	37,902	36,280	37,845	
Public safety				
Salaries	311,142	282,740	298,550	
Fringe benefits	47,487	42,299	43,230	
Workers' compensation	5,694	6,478	5,872	
Employer taxes	23,802	20,765	23,621	
Office supplies	1,000	1,058	1,013	
Postage	350	279	256	
Film developing	25	-	-	
Reimbursable expenses	-	4,116	4,941	
Dues, memberships and subscriptions	375	180	180	
Contractual/professional services	9,334	9,934	10,670	
Legal fees	13,320	14,200	14,572	
Insurance	15,602	14,012	14,158	
Uniforms and accessories	4,100	1,465	2,846	
Repairs and maintenance	200	449	416	
Telephone	1,750	2,007	1,595	
Travel and training	5,353	5,298	5,547	
Forfeiture expenses	-	800	823	
Salvage inspections	-	500	520	
Printing and publishing	500	329	332	
Reimbursable expenses	-	-	(291)	
Utilities	3,047	2,916	2,818	
Bad debt expense	-	1,280	1,280	
Police services	200	241	191	
Furniture, fixtures and equipment	-	-	207	
Vehicle expenses	8,520	5,440	5,879	
Fuel expenses	12,000	11,846	14,527	
Total public safety	463,801	428,632	453,751	
Zoning department				
Salaries	6,849	6,522	8,369	
Fringe benefits	2,798	2,353	2,393	
Workers' compensation	97	97	89	
Employer taxes	524	269	365	
Office supplies	400	76	79	
Postage	100	95	121	
Dues, memberships and subscriptions	150	-	-	
Contractual/professional services	1,597	1,954	1,819	
Legal fees	450	19	17	
Insurance	1,352	1,358	1,358	
Repairs and maintenance	50	-	-	
Telephone	360	59	46	
Travel and training	182	189	174	
Printing and publishing	432	724	736	
Reimbursable expenses	-	-	(919)	
Furniture, fixtures and equipment	520	-	41	
Resource material	100	-	-	
Total zoning department	15,961	13,715	14,688	
Building department/inspector				
Salaries	27,396	35,899	27,720	
Fringe benefits	11,194	14,728	15,498	
Workers' compensation	388	390	357	
Employer taxes	2,096	1,960	2,204	
Office supplies	300	156	177	
Postage	100	149	137	
Dues, memberships and subscriptions	150	8	42	
Contractual/professional services	13,693	6,593	16,148	
Legal fees	450	117	107	
Insurance	2,372	2,638	2,638	
Repairs and maintenance	50	-	-	
Telephone	360	951	724	
Travel and training	868	778	3,060	
Printing and publishing	432	46	114	

VILLAGE OF BIRCH RUN
OTHER SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE DETAIL-GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual	Variance Over/(Under) Final Budget
	Original	Final		
Repairs and maintenance	100	-	-	-
Telephone	360	340	270	70
Travel and training	510	424	413	11
Mileage	262	149	146	3
Printing and publishing	107	142	160	(18)
Utilities	3,054	3,101	2,957	144
Miscellaneous	200	103	310	(207)
Total village clerk/treasurer	37,902	36,280	37,845	(1,565)
Public safety				
Salaries	311,142	282,740	298,550	(15,810)
Fringe benefits	47,487	42,299	43,230	(931)
Workers' compensation	5,694	6,478	5,872	606
Employer taxes	23,802	20,765	23,621	(2,856)
Office supplies	1,000	1,058	1,013	45
Postage	350	279	256	23
Film developing	25	-	-	-
Reimbursable expenses	-	4,116	4,941	(825)
Dues, memberships and subscriptions	375	180	180	-
Contractual/professional services	9,334	9,934	10,670	(736)
Legal fees	13,320	14,200	14,572	(372)
Insurance	15,602	14,012	14,158	(146)
Uniforms and accessories	4,100	1,465	2,846	(1,381)
Repairs and maintenance	200	449	416	33
Telephone	1,750	2,007	1,595	412
Travel and training	5,353	5,298	5,547	(249)
Forfeiture expenses	-	800	823	(23)
Salvage inspections	-	500	520	(20)
Printing and publishing	500	329	332	(3)
Reimbursable expenses	-	-	(291)	291
Utilities	3,047	2,916	2,816	100
Bad debt expense	-	1,280	1,280	-
Police services	200	241	191	50
Furniture, fixtures and equipment	-	-	207	(207)
Vehicle expenses	8,520	5,440	5,879	(439)
Fuel expenses	12,000	11,846	14,527	(2,681)
Total public safety	463,801	428,632	453,751	(25,119)
Zoning department				
Salaries	6,849	6,522	8,369	(1,847)
Fringe benefits	2,798	2,353	2,393	(40)
Workers' compensation	97	97	89	8
Employer taxes	524	269	365	(96)
Office supplies	400	76	79	(3)
Postage	100	95	121	(26)
Dues, memberships and subscriptions	150	-	-	-
Contractual/professional services	1,597	1,854	1,819	135
Legal fees	450	19	17	2
Insurance	1,352	1,358	1,358	-
Repairs and maintenance	50	-	-	-
Telephone	360	59	46	13
Travel and training	182	189	174	15
Printing and publishing	432	724	736	(12)
Reimbursable expenses	-	-	(919)	919
Furniture, fixtures and equipment	520	-	41	(41)
Resource material	100	-	-	-
Total zoning department	15,961	13,715	14,688	(973)
Building department/inspector				
Salaries	27,396	35,899	27,720	8,179
Fringe benefits	11,194	14,728	15,498	(770)
Workers' compensation	388	390	357	33
Employer taxes	2,096	1,960	2,204	(244)
Office supplies	300	156	177	(21)
Postage	100	149	137	12
Dues, memberships and subscriptions	150	8	42	(34)
Contractual/professional services	13,693	6,593	16,148	(9,555)
Legal fees	450	117	107	10
Insurance	2,372	2,638	2,638	-
Repairs and maintenance	50	-	-	-
Telephone	360	951	724	227
Travel and training	868	778	3,060	(2,282)
Printing and publishing	432	46	114	(68)

VILLAGE OF BIRCH RUN
OTHER SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE DETAIL-GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts			Variance Over/(Under) Final Budget
	Original	Final	Actual	
Reimbursable expenses	-	493	493	-
Miscellaneous expenses	50	25	25	-
Furniture, fixtures and equipment	2,080	299	465	(166)
Resource material	100	97	97	-
Total building department/inspector	62,079	65,327	70,006	(4,679)
Planning commission				
Salaries	4,320	2,073	2,453	(380)
Total planning commission	4,320	2,073	2,453	(380)
Zoning board of appeals				
Salaries	1,040	250	250	-
Total zoning board of appeals	1,040	250	250	-
Department of public works				
Salaries	24,280	34,265	38,467	(4,202)
Fringe benefits	2,726	3,183	3,276	(93)
Workers' compensation	90	102	92	10
Employer taxes	1,857	2,492	3,095	(603)
Office supplies	450	411	426	(15)
Postage	100	4	4	-
Building maintenance	750	1,012	1,024	(12)
Supplies and materials	803	3,136	3,252	(116)
Dues, memberships and subscriptions	150	-	-	-
Contractual/professional services	1,974	3,179	3,834	(655)
Legal fees	-	95	95	-
Insurance	6,134	6,032	6,024	8
Repairs and maintenance	1,500	2,328	2,402	(74)
Telephone	1,200	485	407	78
Travel and training	250	31	31	-
Printing and publishing	50	42	42	-
Reimbursable expenses	829	586	(795)	1,381
Utilities	3,050	3,341	3,153	188
Miscellaneous expenses	150	156	363	(207)
Vehicle expenses	2,984	5,596	5,977	(381)
Fuel expense	14,400	11,766	8,694	3,072
Total department of public works	63,727	78,242	79,863	(1,621)
Sidewalk construction				
Sidewalk construction	1,500	580	580	-
Total sidewalk construction	1,500	580	580	-
Storm sewer repair/construction				
Storm sewer repair/construction	62,997	55,784	55,882	(98)
Total storm sewer repair/construction	62,997	55,784	55,882	(98)
Street lighting				
Street lights	21,070	21,704	20,775	929
Total street lighting	21,070	21,704	20,775	929
Refuse expenditures				
Refuse expenses	41,759	39,476	40,521	(1,045)
Total refuse expenditures	41,759	39,476	40,521	(1,045)
Total expenditures	779,788	745,087	779,347	(34,260)
Revenues over (under) expenditures	18,881	23,969	4,102	(19,867)
Other financing sources (uses)				
Operating transfers in/(out)				
Transfer in-sewer	4,100	4,100	4,100	-
Transfer in-water	4,200	4,200	4,200	-
Total operating transfers	8,300	8,300	8,300	-
Total other financing sources (uses)	8,300	8,300	8,300	-
Net change in fund balances	27,181	32,269	12,402	(19,867)
Fund balance-beginning of year	526,439	526,439	526,439	-
Fund balance-end of year	\$ 553,620	\$ 558,708	\$ 538,841	\$ (19,867)

VILLAGE OF BIRCH RUN
OTHER SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE DETAIL-MAJOR STREETS FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual	Variance Over/(Under) Final Budget
	Original	Final		
Revenues				
Act 51 funds	\$ 98,771	\$ 95,508	\$ 94,493	\$ (1,015)
Metro act revenue	-	5,436	5,436	-
Reimbursements	18,944	15,920	15,919	(1)
Interest	2,770	8,968	9,266	298
Miscellaneous	-	40	58	18
Total revenues	120,485	125,872	125,172	(700)
Expenditures				
Routine Maintenance				
Salaries	24,111	19,100	20,489	(1,389)
Fringe benefits	2,707	784	1,645	(861)
Workers' compensation	1,222	1,365	1,248	117
Employer taxes	1,844	543	1,530	(987)
Office supplies	100	22	20	2
Street sign expenses	300	412	412	-
Maintenance expenses	5,489	4,415	4,047	368
Health care reimbursement	222	-	-	-
Telephone	-	-	18	(18)
Employee reimbursement	229	188	187	1
Maintenance and equipment rental	9,045	14,313	14,107	206
Total routine maintenance	45,269	41,142	43,703	(2,561)
Snow and ice control				
Salaries	6,557	4,259	4,242	17
Fringe benefits	700	178	167	11
Workers' compensation	308	345	315	30
Employer taxes	502	324	323	1
Snow and ice control expenses	4,499	4,499	3,396	1,103
Health care reimbursement	56	-	-	-
Equipment rental	6,525	7,696	7,696	-
Total snow and ice control	19,147	17,301	16,139	1,162
Administration and other				
Traffic services	-	196	240	(44)
Contractual/professional services	6,480	5,399	5,170	229
Legal fees	1,800	289	265	24
Insurance	76	76	76	-
Total administration and other	8,356	5,960	5,751	209
Total expenditures	72,772	64,403	65,593	(1,190)
Revenues over (under) expenditures	47,713	61,469	59,579	(1,890)
Other financing sources (uses)				
Transfers out	(24,693)	(23,877)	(23,877)	-
Net change in fund balances	23,020	37,592	35,702	(1,890)
Fund balance-beginning of year	239,068	239,068	239,068	-
Fund balance-end of year	\$ 262,088	\$ 276,660	\$ 274,770	\$ (1,890)

VILLAGE OF BIRCH RUN
OTHER SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE DETAIL-LOCAL STREETS FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual	Variance Over/(Under) Final Budget
	Original	Final		
Revenues				
Act 51 funds	\$ 25,884	\$ 25,031	\$ 24,768	\$ (263)
Reimbursements	5,779	5,601	5,601	-
Interest	1,419	5,657	5,651	(6)
Miscellaneous	-	40	48	8
Total revenues	33,082	36,329	36,068	(261)
Expenditures				
Routine Maintenance				
Salaries	17,697	15,722	17,345	(1,623)
Fringe benefits	1,973	603	1,503	(900)
Workers' compensation	888	994	908	86
Employer taxes	1,354	292	1,297	(1,005)
Office supplies	100	21	19	2
Maintenance expenses	1,011	888	814	74
Health care reimbursement	162	-	-	-
Telephone	-	-	18	(18)
Employee reimbursement	229	188	187	1
Equipment rental	6,840	8,734	8,772	(38)
Total routine maintenance	30,254	27,442	30,863	(3,421)
Construction expenses				
Construction expenses	6,600	6,600	6,600	-
Total construction expenses	6,600	6,600	6,600	-
Snow and ice control				
Salaries	5,881	3,245	3,228	17
Fringe benefits	622	146	137	9
Workers' compensation	273	305	279	26
Employer taxes	450	247	246	1
Snow and ice control expenses	3,127	3,127	2,419	708
Health care reimbursement	50	-	-	-
Equipment rental	5,316	4,871	4,871	-
Total snow and ice control	15,719	11,941	11,180	761
Administration and other				
Traffic services	-	-	-	-
Contractual/professional services	1,950	2,256	2,339	(83)
Legal fees	1,800	289	265	24
Insurance	76	76	76	-
Total administration and other	3,826	2,621	2,680	(59)
Total expenditures	56,399	48,604	51,323	(2,719)
Revenues over (under) expenditures	(23,317)	(12,275)	(15,255)	(2,980)
Other financing sources (uses)				
Transfer in	24,693	23,877	23,877	-
Net change in fund balances	1,376	11,602	8,622	(2,980)
Fund balance-beginning of year	139,630	139,630	139,630	-
Fund balance-end of year	\$ 141,006	\$ 151,232	\$ 148,252	\$ (2,980)

COMPONENT UNIT

**VILLAGE OF BIRCH RUN
COMPONENT UNIT
DOWNTOWN DEVELOPMENT AUTHORITY
BALANCE SHEET/STATEMENT OF NET ASSETS
JUNE 30, 2006**

	DOWNTOWN DEVELOPMENT AUTHORITY	ADJUSTMENTS	STATEMENT OF NET ASSETS
Assets			
Cash and cash equivalents	\$ 1,177,062	\$ -	\$ 1,177,062
Investments	-	-	-
Interest receivable	900	-	900
Construction in progress	-	87,502	87,502
Nondepreciable capital assets	-	89,043	89,043
Depreciable capital assets, net	-	37,831	37,831
Total assets	\$ 1,177,962	214,376	1,392,338
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 34,373	8,058	42,431
Accrued expenses	3,139	-	3,139
Long-term debt:			
Due within one year	-	85,000	85,000
Due in more than one year	-	1,805,000	1,805,000
Total liabilities	37,512	1,898,058	1,935,570
Fund balances			
Reserved for construction	146,534	(146,534)	-
Unreserved	993,916	(993,916)	-
Total fund balances	1,140,450	(1,140,450)	-
Total liabilities and fund balances	\$ 1,177,962		
Net assets			
Invested in capital assets, net of related debt		(1,675,624)	(1,675,624)
Restricted for acquisition/construction of capital assets		146,534	146,534
Unrestricted		985,858	985,858
Total net assets (deficit)		\$ (543,232)	\$ (543,232)

**VILLAGE OF BIRCH RUN
COMPONENT UNIT
DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>DOWNTOWN DEVELOPMENT AUTHORITY</u>	<u>ADJUSTMENTS</u>	<u>STATEMENT OF ACTIVITIES</u>
Revenues			
Taxes	\$ 897,844	\$ -	\$ 897,844
Interest	43,957	-	43,957
Miscellaneous	<u>435</u>	<u>-</u>	<u>435</u>
Total revenues	942,236	-	942,236
Expenditures/Expenses			
Salaries and wages	70,513	-	70,513
Payroll taxes and fringe benefits	17,085	-	17,085
Office supplies	538	-	538
Dues, memberships and subscriptions	675	-	675
Professional services	31,792	-	31,792
Insurance	2,471	-	2,471
Travel and training	1,118	-	1,118
Printing and publishing	-	-	-
Utilities	3,298	-	3,298
Equipment rental	-	-	-
Maintenance expense	16,261	-	16,261
Hydrant rental	2,025	-	2,025
Miscellaneous	525	-	525
Construction projects	39,924	(39,924)	-
Furniture, fixtures and equipment	6,475	-	6,475
Fees	1,117	-	1,117
Streetscape projects	91	-	91
Reimbursements	308,201	-	308,201
Depreciation	-	9,303	9,303
Debt service:			
Principal	220,000	(220,000)	-
Interest expense	<u>105,200</u>	<u>(1,916)</u>	<u>103,284</u>
Total expenditures/expenses	<u>827,309</u>	<u>(252,537)</u>	<u>574,772</u>
Net change in fund balance/net assets	114,927	252,537	367,464
Fund balance/net assets (deficit), beginning of year	<u>1,025,523</u>	<u>(1,936,219)</u>	<u>(910,696)</u>
Fund balance/net assets (deficit), end of year	<u>\$ 1,140,450</u>	<u>\$ (1,683,682)</u>	<u>\$ (543,232)</u>

INTERNAL CONTROL AND COMPLIANCE



Certified Public Accountants

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

October 5, 2006

Village Council
Village of Birch Run
Birch Run, Michigan

We have audited the financial statements of the Village of Birch Run as of and for the year ended June 30, 2006 and have issued our report thereon dated October 5, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether The Village of Birch Run's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Village of Birch Run's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the members of the board of The Village of Birch Run .

A handwritten signature in cursive script that reads "Taylor & Morgan, P.C.".

TAYLOR & MORGAN, P.C.
Certified Public Accountants



Certified Public Accountants

December 18, 2006

To the Village Council of
Village of Birch Run

We have audited the basic financial statements of Village of Birch Run (the "Village") for the year ended June 30, 2006, and have issued our report thereon dated October 5, 2006. Professional standards require that we provide you with the following information related to our audit.

Our responsibility under Generally Accepted Audited Standards

As stated in our engagement letter dated June 22, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the basic financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we made a study and evaluation of the plan's system of internal accounting control to the extent we considered necessary solely to determine the nature, timing and extent of our auditing procedures. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole, and accordingly do not express such an opinion.

Internal Control over Financial Reporting

In planning and performing our audit, we considered The Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and do not provide assurance on the internal control over financial reporting.

Our consideration of the internal control over the financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village are described in Note 1 to the financial statements. We noted no transactions entered into by the Village during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Village's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on a certain situation. If a consultation involves application of an accounting principle to the Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention of as the Village's auditors. These discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

Other Items

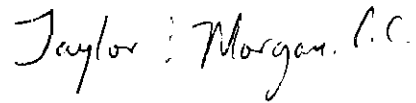
Accounts payable procedures – During our review of internal controls, we noted the treasurer receives, from the mail, unopened monthly bank statements. We agree with this routing, but also recommend the treasurer incorporate a review of the statements for unusual items and also review all cancelled checks, noting unusual items or vendors and to ensure all checks have two signatures.

Implementing this recommendation will provide additional controls over the clerk's ability to both generate disbursements and perform the bank reconciliations.

Monthly bank reconciliations – Our analysis of Village bank reconciliations disclosed a variance between the reconciliation amounts and the related cash balances on the fund general ledgers. The variance was traced to a software issue related to payroll tax accruals that went back to the prior fiscal year.

We understand the software issue has been corrected. We recommend this area be monitored in the future by noting, and correcting, any variances between general ledger cash totals and the related bank reconciliation amounts.

This information is intended solely for the use of the Village Council of the Village of Birch Run and its management and should not be used for any other purpose.

A handwritten signature in black ink that reads "Taylor & Morgan, P.C." in a cursive, flowing script.

Taylor & Morgan, P.C., CPA's
Flint, MI